

ITEM 9A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The currency of our primary economic environment is the dollar. However, we have balances and activities in other currencies. We are therefore exposed to market risks arising from changes in currency exchange rates. We are also exposed to market risks arising from changes in interest rates.

From time to time, we use financial instruments and derivatives in order to limit our exposure to risks arising from changes in exchange rates between the dollar and the NIS and other currencies and in interest rates. However, we cannot assure that the use of such instruments will eliminate our exposure to additional exchange rate or interest rates risks.

Exchange Rate Risk Management

Our functional currency and that of most of our subsidiaries is the dollar. Accordingly, we attempt to protect ourselves against exposure arising from the difference between assets and liabilities in each currency other than the dollar ("Balance Sheet Exposure"). We strive to limit our exposure through "natural" hedging, i.e., attempting to maintain similar levels of assets and liabilities in any given currency, to the extent possible. However, this method of "natural" hedging is not always achievable.

The table below details the balance of the Balance Sheet Exposure by currency:

	December 31, 1999
Liabilities – short term	(in thousands)
Variable rate debt:	
In NIS	5,276
Interest rate	11.3%-12.1%

Interest Rate Risk Management

Due to the existence of assets and liabilities with different interest rates and maturity dates, we are exposed to changes in interest rates.

The table below details the Balance Sheet Exposure by currency and interest rates:

	Expected Maturity Dates		
	2000	2001	Maturity Unknown
Assets:	(In thousands)		
Short term- in US dollars:	61,540		
Fixed rate Interest rate	5.4%-6.69%		
Long term - in US dollars:		50,000	\$9,000
Fixed rate Interest rate		5.71%-5.79%	0%
Liabilities:			
1) long-term - in US dollars:	\$75,000		
fixed rate debt- In dollars Interest rate	6.5%		
2) short-term variable rate debt- In dollars average interest rate	1,710 6.85%		
In NIS average interest rate	5,276 11.3%-12.1%		
Interest rate option(*)	\$20,000		

(*) In May, 1997 we bought a three year call option to protect us in the event the Libor interest rate exceeds 7.5%. Upon the exercising of the option, we will be entitled to the difference between the then Libor interest rate and 7.5%, multiplied by \$20,000,000. This call option was not exercised and expired in May 2000.

In 1998 and 1999, we made long-term loans in the amount of \$9,000,000 to an associated company: \$8,500,000 in 1998 and \$500,000 in 1999. The loans do not bear interest and are without a maturity date.

In February 2000, we completed a private offering of \$350 million of convertible subordinated notes due in 2005, to Qualified Institutional Buyers. The notes are convertible into ordinary shares at a conversion price of \$186.18 per share. Each note will bear annual interest of 4.25% payable semiannually. See also note 16a of the Notes to the Consolidated Financial Statements.

ITEM 10: DIRECTORS AND OFFICERS OF REGISTRANT

Directors and Executive Officers

Our directors and executive officers and key executives of our subsidiaries as of June 16, 2000 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Yoel Gat(1)(2).....	48	Chairman of the Board of Directors and Chief Executive Officer
Amiram Levinberg(1)(2).....	44	President, Chief Operating Officer and Director
Shlomo Tirosch(3).....	54	Director
Dov Tadmor(1)(3).....	70	Director
John Connelly(4).....	56	Director
Dr. Gideon Kaplan.....	44	Vice President, Technology
Yoav Leibovitch.....	42	Vice President, Finance and Administration and Chief Financial Officer
Joshua Levinberg.....	46	Senior Vice President, Business Development
Joann R. Blasberg.....	48	Vice President and General Counsel
Erez Antebi.....	40	Vice President, General Manager for Asia, Australia and Africa
Alan Freece.....	52	Chief Executive Officer and President, Gilat Florida
Sheldon Revkin.....	56	President and Chief Operating Officer, Spacenet
David R. Shiff.....	42	Vice President, Sales and Marketing, Spacenet
Robert Givens.....	54	President, Gilat Europe

- (1) Member of the Stock Option Committee. For approval of stock option grants to employees who are also directors, the Stock Option Committee also includes Mr. Tadmor.
- (2) Member of the Compensation Committee.
- (3) Member of the Audit Committee.
- (4) Mr. Connelly is a nominee of GE Americom, pursuant to a voting agreement among certain of the principal shareholders of Gilat concerning the election of directors.

Yoel Gat is a co-founder of Gilat and has been its Chief Executive Officer and a Director since Gilat's inception and since July 1995 has served as the Chairman of the Board of Directors. Mr. Gat is a member of the Stock Option and Compensation Committees of the Board. Until July 1995, Mr. Gat also served as the President of Gilat. From 1974 to 1987, Mr. Gat served in the Israel Defense Forces ("IDF"). In his last position in service, Mr. Gat was a senior electronics engineer in the Israel Ministry of Defense ("IMOD"). Mr. Gat is a two-time winner of the Israel Defense Award (1979 and 1988), Israel's most prestigious research and development award. Mr. Gat is also Chairman of the Board of Directors of KSAT, in which Gilat holds a minority interest. Mr. Gat also served as the Chairman of the MOST Consortium and is a director of ILAN-GAT Engineering Ltd., a civil contracting company whose shares are publicly traded on the Tel Aviv Stock Exchange and of which members of his family are major shareholders. Mr. Gat is Chairman of the Board of Directors of Gilat-To-Home, Inc. Mr. Gat received a bachelor of science degree in electrical engineering and electronics from the Technion—Israel Institute of Technology and a masters degree in management science from the Recanati Graduate School of Business Administration of Tel Aviv University, where he concentrated on information systems.

Amiram Levinberg is a co-founder of Gilat and has been a Director and Chief Operating Officer since inception, and since July 1995 has served as President. Mr. Levinberg is a member of the Stock Option and Compensation Committees of the Board. Until July 1995, he served as Vice President of Engineering. In this capacity, he supervised the development of Gilat's OneWay and Skystar Advantage VSATs. Mr. Levinberg is also a director of Gilat Communications. From 1977 to 1987, Mr. Levinberg served in a research and development unit of the IDF, where he managed a large research and development

project. He was awarded the Israel Defense Award in 1988. Mr. Levinberg is a graduate of the Technion, with a bachelor of science degree in electrical engineering and electronics and masters of science degree in digital communications.

Shlomo Tirosh is a co-founder of Gilat and has been a member of the Board of Directors since inception, serving as Chairman of the Board of Directors until July 1995. Mr. Tirosh is a member of the Audit Committee of the Board. Since July 1990, Mr. Tirosh has served as Chairman of the Board, Chief Executive Officer and President of Gilat Communications. From 1964 to 1987, Mr. Tirosh served in the IDF, where he held a variety of professional and field command positions (retiring with the rank of colonel). From 1980 to 1985, he headed a large research and development unit, and from 1985 to 1987, he managed a large-scale technology project for the IMOD. In 1988, he received the Israel Defense Award. Mr. Tirosh holds a bachelor of arts degree (summa cum laude) in economics from Bar-Ilan University in Ramat Gan.

Dov Tadmor has been a Director of Gilat since July 1994 and is a member of the Audit and Stock Option Committees of the Board. Mr. Tadmor served as Managing Director of DIC and DICFM from 1985 until March 1999. Mr. Tadmor holds a bachelor of law degree from the School of Law and Economics in Tel Aviv.

In August 1999, an indictment was filed by the Tel Aviv District Attorney's Office in the Tel Aviv Magistrate's Court alleging certain violations of the Israeli Securities Law by DIC and certain of its officers, including Mr. Dov Tadmor, in his capacity as the former CEO of DIC. The indictment alleges that DIC's annual and quarterly financial statements for the period 1990-1995 were misleading in connection with the failure to attach to DIC's financial statements sent to the Tel Aviv Stock Exchange and the Israel Registrar of Companies the financial statements of three private Israeli companies of which DIC was a shareholder. In December 1999, Mr. Tadmor and the other defendants pleaded not guilty to the charges, although one of the defendants subsequently entered into a plea agreement with the prosecution. The court commenced evidentiary proceedings in May 2000.

John Connelly was appointed a Director in January 1999. Since 1992, Mr. Connelly has served as Chairman and Chief Executive Officer of GE Americom. Mr. Connelly joined the General Electric Company in 1967, and has served in a number of capacities at General Electric and its affiliates since that time. Mr. Connelly holds a bachelor of science degree from Niagara University and a masters in business administration from St. John's University.

Gideon Kaplan joined Gilat in 1989 as Vice President of Technology. From late 1987 to 1989, Dr. Kaplan was employed as a research engineer with QUALCOMM, Inc., a mobile satellite communications and cellular radio company. From 1978 to 1987, Dr. Kaplan served in a research and development unit of the IDF and received the Israel Defense Award in 1984. Dr. Kaplan received a bachelor of science degree in electrical engineering, a master of science degree and doctorate in electrical engineering from the Technion.

Yoav Leibovitch joined Gilat in early 1991 as Vice President of Finance and Administration and Chief Financial Officer. Since joining Gilat, Mr. Leibovitch has also served as acting Chief Financial Officer of Gilat Inc. He is a director of GVT. From 1989 to 1990, Mr. Leibovitch worked in the United States at Doubleday Books and Music Clubs as special advisor for new business development. From 1985 to 1989, he was the Financial Officer of a partnership among Bertelsmann, A.G., a large German media and communication company; Clal Corporation, a major Israeli industrial holding company; and Yedioth Aharonot, an Israeli daily newspaper. Mr. Leibovitch is a graduate of the Hebrew University of Jerusalem with a bachelor of arts degree in economics and accounting, and a masters degree in business administration specializing in finance and banking. Mr. Leibovitch is a Certified Public Accountant in Israel.

Joshua Levinberg is a co-founder of Gilat and since June 1999 serves as Senior Vice President for Business Development of Gilat, having previously served in that position from 1994 to April 1998. At that time, Mr. Levinberg became Chief Executive Officer of GVT until June 1999. From 1989 until September 1994, he served as Executive Vice President and General Manager of Gilat Satellite Networks, Inc. From 1987 until the formation of Gilat Satellite Networks, Inc. in 1989, Mr. Levinberg was Vice President of Business Development of Gilat. From 1985 to 1987, Mr. Levinberg held various positions, including Manager of System Development and Marketing Manager at the Israeli subsidiary of DSP Group Inc., a U.S. company specializing in digital signal processing. From 1979 to 1985, he worked in the Communications Engineering Department of Elrisa Ltd., a manufacturer of sophisticated weapons and communications systems. Mr. Levinberg is a graduate of Tel Aviv University, with a bachelor of science degree in electrical engineering and electronics. Amiram Levinberg, a director, President and Chief Operating Officer of Gilat, and Joshua Levinberg are brothers.

Joann R. Blasberg joined Gilat in August 1995 as Vice President and General Counsel. Prior to joining Gilat, Ms. Blasberg was a partner in the firm of Kleinhendler & Halevy, Israeli counsel to Gilat, having been associated with that firm from May 1987. Prior to immigrating to Israel in December 1986, Ms. Blasberg was an associate with the firms of Siff & Rosen from May 1984 and Kronish Leib Weiner & Hellman from August 1982 until May 1984. Ms. Blasberg served as Principal Law Clerk to Chief Judge Lawrence H. Cooke of the New York State Court of Appeals from 1979 to August 1982. Ms. Blasberg received a law degree in 1979 from Brooklyn Law School (summa cum laude) and received a bachelors degree in sociology from Queens College.

Erez Antebi currently serves as Gilat's Vice President, General Manager for Asia, Australia and Africa. From September 1994 until the beginning of 1998, he served as Vice President and General Manager of Gilat Inc. Mr. Antebi joined Gilat in May 1991 as product manager for the Skystar Advantage VSAT product. From August 1993 until August 1994, he served as Vice President Engineering and Program Management of Gilat Inc. Prior to joining Gilat, Mr. Antebi worked for a private importing business from 1989 to 1991, after having served as marketing manager for high frequency radio communications for Tadiran Limited, a defense electronics and telecommunications company, from 1987 to 1989 and as a radar systems development engineer at Rafael, the research and development and manufacturing arm of the IDF, from 1981 to 1987. Mr. Antebi received a bachelor of science degree and master of science degree in electrical engineering from the Technion.

Alan Freece joined Gilat Florida in July 1997 as President and became Chief Executive Officer of that company in January 1998. Prior to joining Gilat Florida, Mr. Freece was Vice President of Marketing and Business Development at Spacenet from 1995 to 1997. From 1984 to 1994, Mr. Freece served in several capacities, including Vice President of Marketing and Sales and President for Scientific Atlanta Private Networks VSAT Division. From 1973 to 1984, he was with Harris's Satellite Communications Division. Mr. Freece received a bachelor of science degree in electrical engineering from the University of Illinois and a masters degree in business administration from the University of Florida.

Sheldon (Shelly) Revkin joined Spacenet in January 1999, as President and Chief Operating Officer. Prior to joining Spacenet, Mr. Revkin was Senior Vice President and General Manager of the Wireless Networks Division of Hughes Network Systems, Inc. (HNS). Mr. Revkin joined HNS in 1978 and held several executive-level marketing, sales and operations positions within the company. Revkin holds a bachelor of science degree in electrical engineering from Pratt Institute in New York City, a master of science degree in electrical engineering from Polytech University in Brooklyn, New York, and a master of business administration degree in finance and marketing from Lynchburg College in Lynchburg, VA. Revkin is a member of Eta Kappa Nu, Tau Beta Pi, and the Institute of Electrical and Electronics Engineering (IEEE).

David R. Shiff joined Spacenet in December 1998, as Vice President of Sales and Marketing. Prior to joining Spacenet, Mr. Shiff spent 15 years with Hughes Network Systems, a division of Hughes

Electronics. For the last two years he served as Assistant Vice President, North American Sales, for the Satellite Networks Divisions of HNS. Mr. Shiff holds a degree in mechanical engineering from the University of Wisconsin.

Robert Givens joined Gilat in the Spring of 2000 as President of Gilat Europe. Prior to joining Gilat, Mr. Givens was employed by Global One Communications S.A. from 1996 until 2000, first as Chief Financial Officer and then as Executive Vice President and General Manager for Europe and Eastern Europe. From 1982 to 1996, Mr. Givens operated Profit Development, a transition management company he founded to provide temporary management for European and American companies undergoing corporate change. Prior to 1982, he held various management and financial positions with Groupe Chargeurs from 1977 to 1981, Corning Glass Works from 1976 to 1977, Fairchild Camera and Instrument Corp. from 1972 to 1976, Smith Kline Beecham from 1970 to 1972 and Ford Motor Company from 1968 to 1970. Mr. Givens received a bachelor of science degree in finance from Miami University, and a masters degree in international business administration from Columbia University and continued his studies in post graduate accounting at the Wharton School.

Terms of Directors

Directors are elected at the annual shareholders meeting to serve until the next annual meeting of the shareholders and until their respective successors are elected and qualified. Our Articles of Association provide that the directors may appoint additional directors (whether to fill a vacancy or to expand the Board). Our Articles of Association provide that the Board may delegate all of its powers to committees of the Board as it deems appropriate, subject to the provisions of the Israeli Companies Ordinance (the "Companies Law"). Officers of Gilat serve at the discretion of the Board or until their successors are appointed.

Alternate Directors

Our Articles of Association provide that a director may appoint, by written notice to Gilat, any individual (whether or not such person is then a member of the Board) to serve as an alternate director, subject to the consent of the Board if the alternate is not then a member of the Board. Any alternate director shall have all of the rights and obligations of the director appointing him or her, except the power to appoint an alternate (unless otherwise specifically provided for in the appointment of such alternate). The alternate director may not act at any meeting at which the director appointing him or her is present. Such alternate may act as the alternate for several directors and have the corresponding number of votes. Unless the time period or scope of any such appointment is limited by the appointing director, such appointment is effective for all purposes and for an indefinite time, but will expire upon the expiration of the appointing director's term. Currently, no alternate directors have been appointed.

Board Compensation

By resolution of the Board and the shareholders adopted in 1996, directors who are not executive officers receive annual compensation of \$10,000 for their services on the Board or any committee thereof beginning in 1996. All of the non-management directors are reimbursed for their expenses for each Board meeting attended.

Outside Directors and Audit Committee

Under the new Israeli Companies Law, which became effective February 1, 2000, public companies are required to elect two outside directors who must meet specified standards of independence. Companies that are registered under the laws of Israel and whose shares are listed for trading on a stock exchange outside of Israel, such as our company, are treated as public companies with respect to the outside directors requirement. The outside directors may not have any economic relationship with us.

Therefore any person who was an employee of a company or had a commercial or professional connection with it including controlling shareholders, 25% shareholders, and their relatives or employees cannot serve as outside directors.

Outside directors are elected by shareholders. The shareholders voting in favor of their election must include at least one-third of the shares of the non-controlling shareholders of the company who are present at the meeting. This minority approval requirement need not be met if the total shareholdings of those non-controlling shareholders who vote against their election represent 1% or less of all of the voting rights in the company. Outside directors serve for a three-year term, which may be renewed for only one additional three-year term. Outside directors can be removed from office only by the same special percentage of shareholders as can elect them, or by a court, and then only if the outside directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the company. If, when an outside director is elected, all members of the board of directors of a company are of one gender, the outside director to be elected must be of the other gender.

Any committee of the board of directors must include at least one outside director. An outside director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service. Pursuant to regulations promulgated under the Companies Law, our two independent directors may be deemed to be outside directors.

The Companies Law also provides that publicly traded companies must appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company's business and approving related party transactions as required by law. An audit committee must consist of at least three members, and include all of the company's outside directors. However, the chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. An audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder (defined below), unless at the time of approval two outside directors are serving as members of the audit committee and at least one of the outside directors was present at the meeting in which an approval was granted.

In addition, the Companies Law requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. A person who does not satisfy the Companies Law's independence requirements may not be appointed as an internal auditor. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice.

Pursuant to the listing requirements of the Nasdaq National Market, we are currently required to have at least two independent directors on our Board of Directors and to establish an audit committee, at least a majority of whose members are independent of management. Messrs. Tadmor and Tirosh, both of whom we believe are independent of management, currently serve on the Audit Committee of the Board.

Nasdaq recently amended its rules to require that listed companies have at least three independent directors on the audit committee, all of whom are financially literate and one of whom has accounting or related financial expertise. We must comply with these amended rules by June 14, 2001.

Approval of Related Party Transactions Under Israeli Law

The Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. Under the Companies Law, an "office holder" is a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly

subordinate to the General Manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title.

An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care which a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (1) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (2) all other information of importance pertaining to the foregoing actions. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding the exploitation of any business opportunity of the company in order to receive personal gain for the office holder or others, and disclosing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

The individuals listed as directors or executive officers in the table above would be considered office holders. Under the Companies Law, all arrangements as to compensation of office holders who are not directors require approval of our Board of Directors, provided, however, that it was not an extraordinary transaction under the Companies Law, and provided further that there are no other special requirements under the company's articles of association. The compensation of office holders who are directors must be approved by our Audit Committee, Board of Directors and shareholders.

The Companies Law requires that an office holder promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on our profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Some transactions, actions and arrangements involving an office holder, or a third party in which an office holder has an interest, must be approved by the board of directors or as otherwise provided for in a company's articles of association, as not being adverse to the company's interest. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, with further shareholder approval required in the case of extraordinary transactions. An office holder who has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present during the board of directors or audit committee discussions and may not vote on this matter.

The Companies Law also provides that an extraordinary transaction between a public company and a controlling shareholder, or an extraordinary transaction in which a controlling shareholder of the company has a personal interest but which are between a public company and another entity, or the terms of compensation of a controlling shareholder, if he is an employee of the company, and the terms of office of a controlling shareholder if he is an officer of the company must be approved by the audit committee, the board of directors and shareholders.

The shareholder approval for an extraordinary transaction must include at least one-third of the shareholders who have no personal interest in the transaction and are present at this meeting. The transaction can be approved by shareholders without this one-third approval, if the total shareholdings of those shareholders who have no personal interest and voted against the transaction do not represent more than 1% of the voting rights in the company. In addition, a private placement of securities that will increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital or

that will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital, requires approval by the board of directors and the shareholders of the company.

The Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company unless there is another person holding at that time more than 50% of the voting rights of the company.

Regulations under the Companies Law provide that the Companies Law's tender offer rules do not apply to a company whose shares are publicly traded either outside of Israel or both in and outside of Israel, if pursuant to the applicable foreign securities laws and stock exchange rules there is a restriction on the acquisition of any level of control of the company, or if the acquisition of any level of control of the company requires the purchaser to make a tender offer to the public shareholders.

Indemnification of Directors and Officers

The Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his duty of loyalty, but may exculpate in advance an office holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care.

The Companies Law provides that a company may not indemnify an office holder, nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of, any of the following:

- a breach by the office holder of his duty of loyalty unless the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if such breach was done intentionally or in disregard of the circumstances of the breach or its consequences;
- any act or omission done with the intent to, derive an illegal personal benefit; or any fine levied against the office holder as a result of a criminal offense.

In order to allow indemnification in advance for office holders under the Articles of Association as described, our shareholders shall be required to amend our Articles of Association to include the following provisions:

- A provision authorizing us to grant in advance an undertaking to indemnify an office holder, provided that the undertaking is limited to types of events which the board of directors deems to be anticipated and limited to an amount determined by the board of directors to be reasonable under the circumstances.
- A provision authorizing us to retroactively indemnify an office holder.

In addition, pursuant to the Companies Law and our Articles of Association, indemnification of and procurement of insurance coverage for our Office Holders must be approved by our audit committee and our Board of Directors and, in specified circumstances, by our shareholders.

We provide indemnification to our Office Holders to the fullest extent permitted by law. Our Articles of Association include a provision to the effect that, to the extent permitted by the Companies Law, we may (i) procure insurance for or indemnify any Office Holder, provided that the procurement of any such insurance or provision of any such indemnification, as the case may be, is approved by the Audit Committee and otherwise as required by law and (ii) procure insurance for or indemnify any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor who is not an Office Holder. We have obtained directors' and officers' liability insurance covering our officers and directors and those of our subsidiaries for certain claims.

ITEM 11: COMPENSATION OF DIRECTORS AND OFFICERS

Compensation of Directors and Officers

The following table sets forth the aggregate compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 1999:

	<u>Salaries, Fees, Directors' Fees, Commissions and Bonuses</u>	<u>Pension, Retirement and Similar Benefits</u>
All directors and officers as a group (22 persons*)	\$7,195,000	\$751,000

*Including those directors and executive officers referred to in Item 4 (except for four persons who became officers in 2000), one person who ceased being an officer during 1999, and two persons who ceased being directors in 1999.

Through June 15, 2000, we had granted options under the Stock Option Plans to our then officers and directors for a total of 3,008,727 ordinary shares, of which 526,341 have been exercised. See "Item 12: Options to Purchase Securities from Registrant or Subsidiaries."

By Board and shareholder action in July and August 1994, respectively, we authorized future bonuses to four of our executive officers, two of whom are also directors. Such bonuses shall be paid as follows: if our consolidated operating income (as defined in the resolution of the Board and the shareholders) in any year through December 31, 1999 is greater than \$10 million, we will pay such officers an aggregate one-time bonus in NIS equal to \$510,000, linked to the Israeli CPI (plus an amount equal to any taxes payable on such bonus). The bonus will be divided among them as set forth in resolutions of the Board and the shareholders meeting. The bonus, which was to be paid as soon as practicable after the end of the year in which the operating income exceeded \$10 million, was paid in 1998. By Board and shareholder action in June and August 1995, the Board was also authorized to grant annual bonuses to two officers who are also directors. In February and August 1997, the Board and the shareholders authorized an amendment to the annual bonus provision, to exclude merger and acquisition costs in calculating net profit for bonus purposes. In May and August 1999, the Board and shareholders authorized the grant of a bonus to an officer who is also a director in recognition of his efforts in completing the Offering. In February 2000, the Board, subject to shareholder approval at the next annual meeting, authorized the cancellation of loans to two officers who are also directors, the amendment of their employment agreements for salary and bonus adjustments, and the grant of options which will commence vesting over a three year period.

Management Employment Agreements

Yoel Gat and Amiram Levinberg, two of our co-founders, are currently employed under employment agreements renewable annually on December 31 of each year. The employment agreements are subject to earlier termination by each officer upon 60 days' notice to us. The agreements provide for an adjustment to the annual bonuses payable to Messrs. Gat and Levinberg under their employment agreements, and Mr. Gat's agreement provides for a personal annual allowance benefit of \$150,000 to cover personal expenses related to extended stays in the United States expected to result from the

integration of Spacenet. Among other provisions, such agreements contain non-competition and confidentiality provisions.

Advisory Board

We have authorized an Advisory Board to be composed of senior members of the business and technology community with expertise in areas of our business, who will be expected to advise and assist us in determining and implementing our strategic course of action, as well as fostering contacts with potential customers for our products. There are currently no appointees to the Advisory Board.

ITEM 12: OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

Stock Option Plans

In January 1993, we adopted the Stock Option Plan (Incentive and Restricted Stock Options) (the "1993 ISO/RSO Plan") and Section 102 Option/Restricted Stock Purchase Plan (the "1993 Section 102 Plan") (collectively, the "1993 Plans"). The 1993 Plans provide for the granting of options and/or rights to purchase (in the case of the 1993 Section 102 Plan) up to an aggregate of 318,500 ordinary shares to our officers, directors, key employees or consultants or any of our subsidiaries.

In June 1995, we adopted the following plans, referred to together as the "1995 Plans":

(i) the 1995 Stock Option Plan (Incentive and Restricted Stock Options) (the "1995 ISO/RSO Plan"), which provides for the granting of incentive and restricted stock options for the purchase of up to 3,190,000 ordinary shares (increased by 1,250,000 as a result of resolutions of the Board in August 1999, and February and May 2000, which are subject to approval by the shareholders at the next annual meeting of shareholders;

(ii) the 1995 Section 102 Stock Option/Stock Purchase Plan (the "1995 Section 102 Plan"), which provides for the granting of options to purchase up to 5,120,000 ordinary shares (increased by 3,500,000 as a result of resolutions of the Board in November 1999 and May 2000; and

(iii) the 1995 Advisory Board Stock Option Plan (the "1995 Advisory Board Plan"), which provides for the granting of options to purchase up to 150,000 ordinary shares.

The purpose of the 1993 Plans and 1995 Plans is to enable us to attract and retain qualified persons as employees, officers, directors, consultants and advisors and to motivate such persons by providing them with an equity participation in Gilat. In addition, the 1993 and 1995 ISO/RSO Plans are designed to afford qualified optionees certain tax benefits available under the United States Internal Revenue Code of 1986, as amended (the "Code"). The 1993 and 1995 Section 102 Plans are designed to afford qualified optionees certain tax benefits under the Israel Income Tax Ordinance. The 1995 Advisory Board Plan is designed to allow for the granting of options to members of the Advisory Board. The 1993 Plans will expire on January 27, 2003 and the 1995 Plans will expire on June 29, 2005 (10 years after their adoption), unless terminated earlier by the Board.

Each of the 1993 Plans and the 1995 Plans is administered by a Stock Option Committee appointed by the Board. The Stock Option Committee (comprised of Messrs. Gat and Levinberg for employees and officers who are not directors and Messrs. Gat, Levinberg and Tadmor for employees who are also directors) has broad discretion, subject to certain limitations, to determine the persons entitled to receive options or rights to purchase under the 1993 Plans and 1995 Plans, the terms and conditions on

which options or rights to purchase are granted and the number of shares subject thereto. The Stock Option Committee also has discretion to determine the nature of the consideration to be paid upon the exercise of an option and/or right to purchase granted under the 1993 Plans and the 1995 Plans. Such consideration generally may consist of cash, or, at the discretion of the Board, cash and a recourse promissory note.

Stock options issued as incentive stock options pursuant to both the 1993 and 1995 ISO/RSO Plans will only be granted to the employees of Gilat or its subsidiaries. The exercise price of incentive stock options issued pursuant to both the 1993 and 1995 ISO/RSO Plans must be at least equal to the fair market value of the ordinary shares as of the date of the grant (and, in the case of optionees who own more than 10% of the voting stock, the exercise price must equal at least 110% of the fair market value of the ordinary shares as of the date of the grant). The exercise price of restricted stock options issued pursuant to the 1993 and 1995 ISO/RSO Plans and the 1995 Advisory Board Plan must not be less than the lower of (i) 50% of the book value of the ordinary shares as of the end of the fiscal year immediately preceding the date of such grant, or (ii) 50% of the fair market value per share of ordinary shares as of the date of the grant. The price per share under options awarded pursuant to the 1993 and 1995 Section 102 Plans may be any price determined by the Stock Option Committee.

Options are exercisable and restrictions on disposition of shares lapse according to the terms of the individual agreements under which such options were granted or shares issued. ordinary shares as to which the rights associated with such shares have not vested will be held by a trustee designated by us.

As of June 15, 2000, we granted options to purchase a total of 304,950 ordinary shares under the 1993 Plans and 7,896,424 ordinary shares under the 1995 Plans for an aggregate of 8,201,374 ordinary shares subject to options under such plans. The exercise prices for such options vary from \$8.125 to \$136.50 and all such options expire at various times from September 2003 to May 2010. Of such options, 3,008,727 options were granted to officers and directors. As of June 15, options under the plans for a total of 727,286 shares had been exercised.

In December 1992, we granted options outside of any stock option plan to two then officers. One officer, who has since again become an officer of Gilat, was granted an option to purchase 24,500 ordinary shares, at an exercise price of \$0.33 per ordinary share, and the other was granted an option to purchase 33,333 ordinary shares at an exercise price of \$12.00 per share; both on terms and conditions comparable to those provided for under the 1993 Plans. As of June 15, 2000, 33,333 of these options have been exercised.

In May 1999, the Board approved the establishment of a new stock option plan under Section 102 of the Israel Income Tax Ordinance with 500,000 ordinary shares to be reserved for issuance. Management was directed to prepare the plan and obtain the necessary regulatory approvals. The plan was approved by the shareholders at the 1999 annual meeting but the request for regulatory approval was withdrawn and there are no current plans to activate the plan in the near future.

ITEM 13: INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Shareholder Registration Rights Agreement. On August 20, 1990, Gilat entered into a Preferred Stock Purchase Agreement with Yoel Gat, Amiram Levinberg, Joshua Levinberg, Shlomo Tirosh and Gideon Kaplan (the "Founders"), Athena Venture Partners L.P. and certain related entities, DICFM, PEC and certain individual investors (the "Investors") under which the Investors invested a total of approximately \$3.0 million in exchange for Gilat's Preferred Shares (which Preferred Shares were converted into ordinary shares at the time of Gilat's initial public offering). PEC has since transferred its shares to DIC Loans and DIC Loans has replaced PEC as a member of the Investors. In connection with such agreement, we entered into a Registration Rights Agreement pursuant to which, among other things,

(i) we agreed that at any time after the earlier of February 28, 1994 or six months after the effective date of the first registration statement for our initial public offering of securities, the holders of at least 10% of the ordinary shares who were parties to the Preferred Stock Purchase Agreement could request that we file a registration statement for such shares (a "demand registration"),

(ii) we agreed to include the Founders' and Investors' ordinary shares in a registration proposed after one year following the first registration (a "company registration"),

(iii) we agreed to pay the expenses of a demand or company registration (subject to certain limitations), and

(iv) the Founders and Investors agreed that during a period to be specified by us and the underwriter (but not more than one year) following the effective date of a registration statement for the Company's securities, and to the extent requested by us and the underwriter, they would not directly or indirectly sell or offer the shares held by them, except ordinary shares included in such registration, provided that all officers and directors and all other persons with registration rights enter into a similar agreement.

Under the Registration Rights Agreement, we agreed to indemnify each of the selling shareholders and any person who controls any of such shareholders, to the extent permitted by applicable law, against any losses arising from any alleged untrue statement of a material fact or any alleged omission of a material fact in the registration statement or the prospectus for our public offering in October 1995 or from any violation by Gilat of the Securities Act or the Exchange Act. Our indemnity does not cover any losses that arise from any alleged untrue statement or omission or violation made in reliance upon information provided to us by such selling shareholder. In addition, each of the selling shareholders agreed to indemnify us and our directors and officers against any losses arising from any information provided to us by such selling shareholder for use in the registration statement or the prospectus. We had obtained insurance covering our officers and directors and the selling shareholders to the extent permitted by law with respect to certain matters in connection with the registration statement and prospectus for the October 1995 offering.

Transactions with Gilat Communications. In July 1996, we entered into an agreement with Gilat Communications Ltd. ("Gilat Communications") under which Gilat Communications has been granted non-exclusive distribution rights to sell and provide technical support for our products in South Africa. In October 1997, we and Gilat Communications entered into a 5-year marketing and purchase agreement (the "1997 Agreement") that replaced and terminated an earlier agreement entered into in 1993. Pursuant to the 1997 Agreement, Gilat Communications has been granted the exclusive right to market the lines of satellite communications products and related components and options, and to provide services with such products in Israel and areas controlled by the Palestinian Authority. Under the 1997 Agreement, Gilat Communications is required to meet certain annual minimum purchase requirements for each of three specified categories of our products, and during the initial term and any renewal term, Gilat Communications may not, without our prior written consent, engage in certain activities competitive with our business. If Gilat Communications satisfies the annual minimum purchase requirements, the parties are required to enter into good faith negotiations to renew the 1997 Agreement three months prior to its expiration. In addition, under the 1997 Agreement, Gilat Communications was granted non-exclusive rights to distribute and sell our products worldwide when and only if sold as part of, or to be used in conjunction with, Gilat Communications' products.

Throughout 1999, we sold approximately \$8.1 million in equipment to Gilat Communications for distribution and as a value added reseller. The sales were in accordance with our standard sale terms and conditions. Certain of our officers, directors, principal and other shareholders are also shareholders of Gilat

Communications. For more information regarding certain transactions between us and Gilat Communications, see notes 9 and 15 of Notes to Consolidated Financial Statements listed in Item 19.

Merger-Related Agreements

In connection with our acquisition of Spacenet, we entered into a Merger Agreement and a series of related agreements. The parties to those agreements include GE Americom which as of June 15, 2000 holds approximately 18.7% of our outstanding ordinary shares. The terms of those agreements, and of certain important provisions of the Merger Agreement are summarized below.

Post-Closing and Other Adjustments. The Merger Agreement contemplates certain post-closing adjustments regarding the possibility of (a) our paying or receiving certain amounts in cash or (b) our issuing additional ordinary shares to GE Americom in respect of such adjustments. Most of the post-closing adjustments relate to an agreement between the parties that the net assets on the combined closing balance sheet of Spacenet and its subsidiaries should equal \$85 million and that any shortfall or excess, as the case may be, should be addressed through post-closing adjustments. Other adjustments relate to the collection of accounts receivable, the sale of specified items of Spacenet inventory and the allocation of certain tax benefits. Pursuant to two settlement agreements entered into by the parties in December 1999, GE Americom paid us \$25 million for post-closing adjustments and undisclosed liabilities related to the Merger, and for reimbursement of expenses.

GE Americom Equipment Purchase Commitment. GE Americom and certain of its affiliates were committed to purchase \$37.5 million of our products through the end of 1999. GE Americom agreed to pay us a credit against service fees we owed to GE Americom under certain Satellite Transponder Service Agreements, equal to 40% of any shortfalls in this purchase commitment. As a result of this agreement, in 1999, GE Americom paid us \$15 million.

Indemnification. Subject to the limitations set forth in the Merger Agreement, GE Americom has indemnified Gilat and Spacenet, and Gilat has indemnified GE Americom, from and against any losses arising from indemnified obligations. The indemnification obligations primarily relate to damages arising from breaches by the other party of representations and warranties under the transaction documents, as well as indemnities with respect to specified obligations of each of the parties. The indemnification obligations were narrowed as a result of the settlement agreements described above.

The Transitional Services Agreement. Under the Transitional Services Agreement, in consideration of the issuance of 5,505 ordinary shares, GE Americom provided Spacenet and its subsidiaries, specified transitional services, including finance services, accounting services, purchasing services, cash management services, computer-related services, payroll processing services and other reasonably necessary services, through August 31, 1999.

The Trademark Agreement. Under the Trademark Agreement, General Electric Company has agreed to grant to Gilat, in consideration of 72,496 ordinary shares, a non-exclusive worldwide license to use the GE symbol in connection with certain products sold by Spacenet, Spacenet GmbH and Spacenet BV, and certain services performed by Gilat, Spacenet, Spacenet GmbH and Spacenet BV. The Trademark Agreement requires that Gilat and Spacenet adhere to certain specified permitted uses and standards of quality. The Trademark Agreement provides that Gilat will use the GE symbol only in connection with the specified products and services, including use in its packaging, labeling, general publicity, letterheads, signs and other forms of advertising, instructions books and other literature. In addition, the Trademark Agreement provides that Gilat will not use the GE symbol as part of a trade name. The term of the Trademark Agreement is three years and it may be renewed under certain circumstances for one additional year. Gilat has agreed to indemnify General Electric Company for all claims arising out of the Trademark Agreement or the manufacture of products or performance of services by Gilat under the licensed mark.


The Shareholders' Agreement. At the time of the Spacenet acquisition, Yoel Gat, Amiram Levinberg, Joshua Levinberg, Shlomo Tirosh and Gideon Kaplan (collectively, the "Founders Group"), DICFM and PEC (collectively, the "IDB Group"), and GE, GE Americom, General Electric Finance Holding GmbH and General Electric Plastics BV (for purposes of the following description, collectively, "GE") entered into a Shareholders' Agreement. PEC has since transferred its shares to DIC Loans, and DIC Loans has replaced PEC as a member of the IDB Group.

Under the Shareholders' Agreement, the Founders Group, the IDB Group and GE have agreed to vote their ordinary shares in order that the Board of Directors of Gilat be comprised of seven members, and in favor of the respective nominees of each of the groups to the following extent:

- The Founders Group will be entitled to nominate three directors, as long as (i) the Founders Group collectively owns at least 30% of the ordinary shares owned by them when the Shareholders' Agreement was signed, or (ii) at least one of the members of the Founders Group is serving as an employee of Gilat;
- The IDB Group will be entitled to nominate two directors, as long as the IDB Group collectively owns at least 50% of the ordinary shares owned by them when the Shareholder's Agreement was signed, or one director if the IDB Group owns between 25% and 50% of those shares; and
- GE will be entitled to nominate two directors, as long as GE owns at least 50% of the ordinary shares owned by GE when the Shareholders' Agreement was signed, or one director if GE owns between 33% and 50% of those shares.

In addition, each of the shareholders has agreed that it will vote all of its ordinary shares in accordance with the recommendations of the Board of Directors in respect of any matter brought to a vote of the shareholders of Gilat, unless (i) the matter relates to certain significant merger, restructuring or other transactions or (ii) is directly and materially adverse to the interests of the shareholder. The shareholders have further agreed, for a period of three years, to vote in favor of the retention of Gilat's present senior executive officers in their respective offices.

Under the Shareholders' Agreement, GE has agreed to certain "stand-still" provisions, including agreements not to acquire any assets, businesses or properties of Gilat, or any ordinary shares which would result in GE being the beneficial owner of greater than 33% of the ordinary shares of Gilat, without the prior approval of the holders of a majority of the ordinary shares held by the Founders Group or the IDB Group.

GE has also agreed not to solicit proxies, call any special meeting of shareholders of Gilat, or propose any form of business combination involving Gilat. GE's standstill agreement is subject to a number of exceptions, including a release of any restrictions in the event of a bona fide third party tender offer, or in the event that the Founders Group and the IDB Group no longer collectively hold at least 50% of the ordinary shares held by them at the time the Shareholders' Agreement was signed. 

Subject to certain exceptions, the Shareholders' Agreement also provides for restrictions on the transferability or pledge of the ordinary shares held by the GE parties for a period of three years from the date of the Shareholders' Agreement, including general restrictions on the disposition of ordinary shares to certain competitors of Gilat. In addition, the Shareholders' Agreement will generally provide for pro rata rights of first refusal for the other parties with respect to the transfer of any ordinary shares by any other affiliated party to any independent third party.

The Registration Rights Agreement. At the time of the Spacenet acquisition, the holders of the Registrable Securities (as defined below) were granted certain registration rights by Gilat. The

"Registrable Securities" generally include the ordinary shares issued to GE and held by GE or any of its affiliates, or by any other person who is at such time a holder of Shares originally issued to GE and representing at least 5% of the then outstanding ordinary shares. Gilat initially agreed to the immediate registration of all Registrable Securities solely in connection with the transfer of such shares to one or more affiliates of GE. The Registration Rights Agreement also provides for certain demand registration rights of GE and the holders of Registrable Securities. Gilat will not be required to effect any registration during the pendency of certain blackout periods. GE also has the right to participate (subject to certain limited exceptions) on a piggy-back basis in all registrations of Gilat's securities in connection with any offering of its securities. The Registration Rights Agreement provides that Gilat will indemnify the selling holders of Registrable Securities, and that the selling holders of Registrable Securities will indemnify Gilat, in each case, against certain liabilities and expenses, including liabilities under the Securities Act, or will contribute to payments that the other may be required to make in respect thereof.

The Right of First Refusal Agreement. Under the Right of First Refusal Agreement, GE Americom has granted to Gilat, for a period of three years, a limited right of first refusal to be the provider in respect of any proposal by GE Americom to obtain (i) any VSAT return channel equipment for broadcast network and (ii) any integration services for the incorporation of VSAT return channel equipment into a broadcast network. In addition, for a corresponding period, Gilat has agreed to grant to GE Americom a limited right of first refusal to be the provider in respect of any proposal by Gilat to obtain any additional space segment capacity on a communications satellite providing services within the United States. Gilat has also agreed that certain integration services performed by Gilat for GE Americom under the above-described right of first refusal will be at a discount of at least 20% from the price provided by the relevant third-party provider. Under the Right of First Refusal Agreement, GE Americom has agreed that if GE Americom commences offering GE*Star services, GE Americom will create a distribution program and will offer Gilat the right to become a world-wide distributor of GE*Star services for a three-year period pursuant to the program terms and conditions established by GE Americom. In addition, if GE Americom offers any third party an opportunity to become an exclusive distributor of GE*Star services in any territory, Gilat will generally be offered an opportunity to act as a co-exclusive distributor in such territory. If Gilat elects to become a distributor of GE*Star services, GE Americom will under certain circumstances provide Gilat a discount on all wholesale GE*Star services.

The Satellite Transponder Service Agreements. Under the Satellite Transponder Service Agreements, GE Americom has agreed to provide to Gilat (i) certain protected services on four transponders on satellite GSTAR4 operated by GE Americom, (ii) certain protected services on one transponder on satellite GE-3 operated by GE Americom, (iii) certain protected services on three transponders on satellite GE-5 to be constructed, launched and operated by GE Americom, (iv) certain preemptible testing services relating to specified bandwidth and downlink EIRP on one transponder on satellite SN-3 operated by GE Americom, and (v) certain protected Ku-band service on portions of certain transponders on satellite GSTAR4 operated by GE Americom. The terms of the services provided under each of the Satellite Transponder Service Agreements are specified in each such agreement. Generally, the services will be provided until the earliest of the end of the life, date of replacement or failure of the relevant satellite, the date on which the relevant transponder fails or is preempted, or a specified termination date provided in each agreement. Except in the case of the agreement described in clause (iv) above, Gilat pays GE Americom a monthly recurring service charge (generally on a per-transponder basis) in accordance with a schedule provided in each agreement. Subject to certain exceptions, the Satellite Transponder Service Agreements provide for Gilat to indemnify GE Americom and certain affiliates for claims arising out of services provided thereunder.

The Letter Agreements. Under the Transponder Letter Agreement dated September 25, 1998, GE Americom and Gilat have agreed, among other things, that (i) Gilat would analyze Spacenet's current space segment use and requirements on or before December 31, 1998 and will take certain transponder capacity on GE Americom satellites at the prices set forth in the Spacenet Letter Agreement described below and (ii) Gilat will receive long-term fixed prices which Gilat believes are competitive and certain

rights of first refusal for additional space segment capacity. Pursuant to a separate letter agreement, dated September 25, 1998 (the "Spacenet Letter Agreement"), GE Americom will provide additional bandwidth and power as well as service protection levels to Spacenet to the extent there is insufficient bandwidth, power or protection levels available to accommodate existing customer requirements under Spacenet's existing transponder service agreements with GE Americom and third party providers.

The Tax Matters Agreement. On September 25, 1998, GE Americom, Spacenet, the Spacenet subsidiaries and Gilat entered into the Tax Matters Agreement in connection with the Merger Agreement. The Tax Matters Agreement provides for, among other, the parties' responsibility for payment of taxes, filing of tax returns, and control of any audit or other tax proceeding relating to Spacenet and the Spacenet subsidiaries. The Tax Matters Agreement also contains representations, covenants and indemnities relating to general tax matters of the parties.

The Merger was intended to qualify as a "tax-free" reorganization under Section 368(a) of the Code. The Tax Matters Agreement contains representations and covenants of the parties relating to the tax-free nature of the Merger. In addition, GE Americom agreed to enter into a gain recognition agreement (the "GRA") with the Internal Revenue Service, in which under certain circumstances during the period ending at the end of the fifth full taxable year following the Merger, GE Americom will agree to recognize gain as if the Merger were taxable to GE Americom. In connection with the GRA, Gilat has agreed in the Tax Matters Agreement not to take certain actions, including, without limitation, the disposition of the stock of Spacenet and the disposition of "substantially all" of the assets of Spacenet and the Spacenet subsidiaries, if doing so would cause GE Americom to recognize gain under the GRA. The Tax Matters Agreement provides that Gilat, Spacenet and the Spacenet subsidiaries, on the one hand, and GE Americom, on the other, will indemnify the other party from any tax resulting from certain breaches of representations and covenants relating to the tax-free nature of the Merger. Each party's liability for purposes of such indemnification will be limited in certain respects pursuant to the terms of the Tax Matters Agreement.

The Tax Matters Agreement provides that the amount of any cash that GE Americom has a right to receive under the Tax Matters Agreement or any other agreement related to the Merger will be reduced to the extent that the receipt of such amount would cause the fair market value of the cash and property other than ordinary shares received by GE Americom in connection with the Merger, in exchange for the stock of Spacenet, to exceed 25% of the fair market value of the ordinary shares delivered by Gilat to GE Americom at Closing, subject to certain exceptions pursuant to the Tax Matters Agreement.

The Tax Matters Agreement provides that, in certain circumstances, if the Merger is subject to tax pursuant to Section 367 or Section 368 of the Code (including, if GE Americom recognizes gain pursuant to the GRA), then GE Americom shall, subject to applicable United States and Israeli securities laws, be entitled to sell such number of ordinary shares reasonably necessary in the opinion of a nationally recognized investment bank to realize net proceeds equal to the amount of such tax plus the amount of any tax paid by GE Americom in connection with the sale by GE Americom of such ordinary shares.

PART II

ITEM 14: DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

**ITEM 16: CHANGES IN SECURITIES, CHANGES IN SECURITY FOR
REGISTERED SECURITIES AND USE OF PROCEEDS**

Not applicable.

PART IV

ITEM 17: FINANCIAL STATEMENTS

Not applicable.

ITEM 18: FINANCIAL STATEMENTS

The Consolidated Financial Statements and related notes thereto required by this item are contained on pages F-1 through F-43 hereof.

ITEM 19: FINANCIAL STATEMENTS AND EXHIBITS

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Consolidated Balance Sheets at December 31, 1998 and 1999	F-3
Consolidated Statements of Income for the Years Ended December 31, 1997, 1998 and 1999	F-5
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 1997, 1998 and 1999	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 1997, 1998 and 1999	F-7
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 (b) <u>Exhibits</u>	
2.1 Consent of Kesselman & Kesselman	
2.2 Consent of Berman, Hopkins, Wright & Laham, LLP	